

National Business Survey

South East England - Executive Summary

January 2009

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About National Business Survey

The National Business Survey is a large scale business survey conducted across all sectors of the economy in England and Northern Ireland. The survey is conducted on behalf of English Regional Development Agencies and Invest Northern Ireland. Data has been weighted by region and business size to reflect national profile.

Within the South East, the data is also weighted by county to reflect the regional profile. Fieldwork was conducted between October and December 2008 and the final achieved sample size was 680 across the South East. In addition to the main National Business Survey which is conducted every six months, the South East Development Agency (SEEDA) will run quarterly snapshots of 600 businesses across the South East and its Counties. This report is available from South East England Development Agency www.seeda.co.uk . For further information on the National Business Survey please contact the Research & Economics team at SEEDA, research@seeda.co.uk (01483 501379).

Executive Summary

Business Climate

- The National Business Survey (NBS) has found that business confidence in South East England has further declined since June 2008. The majority of businesses in the South East (55%) now expect the business climate to deteriorate over the next 12 months, up from 46% at June 2008. Confidence has been hardest hit in the construction sector, where three in four expect things to get worse (75%), followed by the distribution (66%) and manufacturing (62%) sectors. At county level, businesses in Berkshire and Oxfordshire are most pessimistic (68% and 67% respectively expecting the business climate to deteriorate) whereas confidence is significantly higher in West Sussex, where almost a quarter (23%) expect the business climate to improve.
- The economy in South East England is undergoing a challenging set of conditions, and findings from the NBS suggest that the tests it faces are reflective of the challenges facing the national economy. For the past 12

months, the net scores¹ for key economic indicators at the regional and national level illustrate this (%):

- Volumes of output: -9 in the region, -10 nationally
- Profit margins: -43 in the region, -43 nationally
- Domestic orders: -13 in the region, -13 nationally
- Cash in the business: -34 in the region, -35 nationally
- Numbers employed: -10 in the region, -10 nationally

Output, Costs and Investment

- On balance, businesses in South East England have experienced lower levels of output volumes (-9). Close to two in three businesses (65%) say their present level of output is below capacity, in line with the national level (64%), and up from June 2008 (57%).
- Businesses in Hampshire are most likely to say they are operating below capacity (72%), while by sector, manufacturing businesses are most likely to say they are working below capacity (77%).
- Businesses in South East England have experienced a pattern of cost increases very similar to the picture nationally. Energy costs are most commonly cited, with around four in five (82%) saying these have increased over the past 12 months. This is however slightly lower than June 2008 levels (88%). Although almost half of businesses in South East England say that staff costs have increased over the past 12 months (43%), this marks a substantial decline from June 2008 levels, when two in five (60%) said that staff costs had increased.
- Six in ten businesses (60%) say they have passed on increased costs to customers in the past 12 months, down slightly from June 2008 (66%).

¹ Net scores are determined by subtracting the percentage of companies reporting decreases in a factor from the percentage of companies reporting increases.

- Around half of businesses (46%) expect prices charged to customers to remain the same over the next 12 months, with similar proportions expecting them to rise (27%) as to fall (24%). This contrasts with June 2008, when a higher proportion of businesses anticipated price rises (41%).
- Over half of businesses now expect profit margins to be lower over the next 12 months (57%, up from 45% in June 2008). The construction and distribution sectors are most likely to expect profit margins to fall (69% and 67% respectively).
- Over four in ten businesses (42%) expect domestic orders to be lower in the next 12 months, compared to just 15% who expect them to be higher. This outlook is bleaker than was found in June 2008, when one in three expected domestic orders to decline.
- Expected levels of future investment have fallen sharply since June 2008. More businesses expect to decrease than increase spending in the next 12 months on buildings (net score of -2, compared to +22 in June 2008) and on plant and machinery (-14, compared to +11 in June 2008). While on balance businesses expect to increase investment in training and retraining, fewer expect to do so compared to June 2008 (+4 vs. +17 in June 2008). A similar pattern is in evidence with respect to product and process development (equal proportions expecting to increase vs. decrease investment, compared to a net score of +17 in June 2008).

The Labour Market

- While most businesses expect the numbers employed to be the same over the next 12 months, almost one in four (23%) expect the numbers to be lower, up from one in six in June 2008. Only 8% expect them to be higher (compared to one in six in June 2008). The pattern for the South East is similar to the national trend.
- Just under one in five businesses (18%) say they had staff vacancies in the last 12 months that were hard to fill or could not be filled. This is down on June 2008 levels (24%). Looking forward to the next 12 months, businesses

anticipate fewer problems in filling staff vacancies, with just one in eight (12%) expecting there to be difficulties, in line with the national average. Again, businesses are more optimistic than was the case in June 2008, when one in five (20%) expected to encounter problems in filling staff vacancies over the coming year.

- Just under half of businesses in South East England (45%) have provided external training for their staff over the past 12 months, slightly (but not significantly) down on levels in June 2008, and in line with the national average.
- Just over half of businesses say that sales and marketing skills need improving in the next 12 months, similar to June 2008 (50%). Just under a half mention IT skills (42%, similar to the 45% found in June 2008) and just under two in five (36%) mention management skills. Businesses are less likely to emphasise the 'softer' skills of customer care (31%), office administration (31%), communication (29%) and team working (24%) when thinking of what improvements need to be made over the coming year.

Location Drivers

- Over half of businesses in South East England (54%) agree that the location is a good place for business to invest, similar to the national average (56%) and June 2008 levels (57%). Perceptions do not vary significantly by sector, although by region, businesses based in Oxfordshire are particularly likely to agree (69%).
- Businesses in South East England are on balance optimistic that the area in which their business is based will become more attractive to investors in the future (38% feeling it will, versus 18% who think it won't). Perceptions do not vary significantly by sector. By region, businesses in West Sussex are least likely to feel their region will increase in attractiveness for investments – indeed West Sussex is the only country where businesses are more likely to feel that the regional attractiveness will decline (34%) than improve (22%).

Strategic Business Planning and Innovation

- One in three businesses in South East England say they have a strategic business plan, similar to the level recorded in June 2008 (38%), as well as the national average (35%). The implementation of a formal business growth plan does not vary significantly by sector, however it is more common in larger businesses. By county, businesses in East Sussex are most likely to have a formal business growth plan.
- One in nine businesses in South East England (11%) co-operate with universities for research and development activities, unchanged from June 2008, but lower than the proportion nationally (14%). Businesses in the manufacturing and public/personal services sector are most likely to work with universities (19% and 17% respectively). By county, businesses in Berkshire are most likely to co-operate with universities (15%), while those in Kent are least likely to (4%).
- Just over one in five businesses in South East England have introduced a new product or process innovation in the past year. Large businesses are more likely to have introduced a new product or process innovation, with two in five of those with 50 or more employees having done so (41%), compared to half this proportion (21%) among businesses with less than 10 employees.

Environmental Performances

- One in three businesses (33%) have taken steps to reduce CO2 emissions, up from just over a quarter (26%) in June 2008.
- Around four in five businesses have adopted a recycling scheme in the past year (82%), and around a half (51%) have undertaken energy saving schemes and waste minimising schemes (51%). These proportions are similar to June 2008 levels, and in line with the national average.
- Looking forward to the next 12 months, businesses in South East England are most likely to say they will introduce or purchase environmentally friendly products (43%), and adopt an energy saving scheme (42%). This is in line with

both June 2008 levels, and the national trend. Businesses are less likely to say they plan to adopt a recycling scheme than was the case in June 2008 (43% in June 2008 compared to 34% currently).